ENERGY/ICRJ/RHG

Decision _________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY U-904-M for Authorization to: (1) Obtain Long-term Debt Capital not to exceed the equivalent of U.S. $660,000,000, of which no less than $108,575,000 will be applied to, or used to reimburse its treasury for, the discharge of indebtedness and/or Preferred Stock; (2) Obtain an exemption from the Competitive Bidding Rule; (3) Enter into Interest Rate Swaps, Caps, Collars and/or Currency Exchange Contracts; (4) Issue and sell not more than U.S. $80,000,000 stated value of Preferred or Preference Stock, of which no less than $76,000,000 will be applied to, or used to reimburse its treasury for, the discharge of Indebtedness and/or Preferred Stock; and (5) Take all other necessary related actions.	Application 03-09-035 (Filed September 17, 2003)

OPINION GRANTING AUTHORITY TO ISSUE DEBT AND EQUITY SECURITIES

Summary

This decision grants San Diego Gas & Electric Company (SDG&E) the authority requested in Application (A.) 03-09-035 (Application).

SCE requests authority, pursuant to Articles 5 and 6 of Chapter 4, Part 1, Division 1 of the California Public Utilities (Pub. Util.) Code and

Rules 33 and 34 of the Commission's Rules of Practice and Procedure for the following:

1. To obtain long-term debt capital in an aggregate principal amount not to exceed the equivalent of U.S. $660,000,000 through the issuance and sale (including, by exchange for outstanding debt or equity securities of SDG&E) of First Mortgage Bonds, debentures, promissory notes or other evidences of indebtedness (including, without limitation, overseas indebtedness and foreign securities) and the incurrence of loans (domestic or foreign) or other borrowings (such capital is collectively referred to as "Debt Securities") in one or more financings in domestic or foreign capital markets;

2. To obtain an exemption from the Commission's Competitive Bidding Rule for (a) the issuance of fixed interest rate debentures and First Mortgage Bonds in excess of U.S. $200,000,000 principal amount, (b) for financings involving Debt Securities other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds and (c) permission to use certain procedures for those situations where the Competitive Bidding Rule remains applicable;

3. To use the net proceeds from the Debt Securities to, or to reimburse its treasury for monies expended or to be expended for (a) the expansion and betterment of utility plant and/or (b) the discharge of its indebtedness or preferred stock retired or to be retired at maturity or through sinking fund payments, redemption, prepayment (including premiums, if any), repurchase or otherwise (not less than $108.6 million from the net proceeds will be applied toward these purposes);

4. To enter into one or more interest rate swaps, caps, collars and/or currency exchange contracts; and

5. To issue and sell not more than U.S. $80,000,000 stated value of preferred or preference stock and use the net proceeds to, or to reimburse its treasury for monies expended or to be expended for (a) the expansion and betterment of utility plant and / or (b) the discharge of its indebtedness or preferred stock retired or to be retired at maturity or through sinking fund payments, redemption, prepayment (including premiums, if any), repurchase or otherwise (not less than $76 million from the net proceeds will be applied toward these purposes).

The authorization requested in the Application is in addition to the financing authorization remaining under Decision (D.) 93-09-069[1], as modified by D.96-05-066, and D.00-01-016, of which $138,480,000 of new money debt, $246,280,000 of rollover debt and $48,360,000 of preferred stock remains available for issuance.

Notice of the filing appeared on the Commission's Daily Calendar of September 23, 2003. No protests have been received.

Background

SDG&E is an electric and gas corporation organized and existing under the laws of the State of California, and is primarily engaged in the business of providing public utility electric and gas service throughout San Diego County and public utility electric service in a portion of Orange County.

[1] While this original decision provided financing authority for a limited duration, it has subsequently been modified twice to extend the financing authority and to increase the refunding authority from $300 million to $500 million.

The Commission granted most of SDG&E's existing financing authority in a series of decisions during the 1990s. The amounts of financing authorization remaining under those decisions are as follows:

Decision No.	Authority	Type	Remaining Authority
D.93-09-069	$250 million	Debt Securities	$138,480,000
	$100 million	Preferred Equity	48,360,000
D.96-05-066 (modified by D.00-10-016, to be used exclusively for refunding)	$500 million	Debt Securities	246,280,000
D.02-06-024 (For Energy Revenue Shortfall Account or ERSA[2])	$400 million	Debt Securities	400,000,000

Discussion

SDG&E seeks authorization to obtain debt capital in an aggregate principal amount not to exceed $660,000,000 through the issuance and sale of Debt Securities and to issue Preferred or Preference Stock of up to $80,000,000 stated value. The authorization requested in the Application is in addition to SDG&E's unused financing authorities whose proceeds are intended for specific purposes.

The precise amount and timing of each financing, the market in and method by which it is effected, price and interest rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures) and other material provisions of the Debt Securities issued in each financing will be determined by SDG&E, within the constraints set forth below, with due

[2] At June 30, 2003, the ERSA balance totaled $174 million. SDG&E has no plans to issue any securities against this authority in the foreseeable future.

regard for its financial condition, requirements and then prevailing and anticipated market conditions.

Types of Debt Securities

The types of Debt Securities that SDG&E proposes to issue in this Application are similar to those authorized by Decision (D.) 03-07-008[3] dated July 10, 2003 in Southern California Gas Company's A.03-03-042. A general description of the types of Debt Securities are described on pages 5 to 7 of SDG&E's Application:

1. First Mortgage Bonds
2. Debentures and Notes
3. Medium-Term Notes
4. Tax-Exempt Debt
5. Foreign Capital Markets[4]
6. Loans

SDG&E anticipates that the cost of certain Debt Securities may be reduced by the inclusion of a repurchase option. This option would permit the holders of such Debt Securities to require SDG&E to repurchase all or a portion of each holder's Debt Securities. Generally, debt holders are willing to accept a lower interest rate in exchange for the protection that a repurchase option offers them.

[3] $715,000,000 Debt Securities in the form of First Mortgage Bonds, debentures and notes, medium-term notes, foreign capital markets, and loans. Such Debt Securities may be enhanced with interest rate swaps, caps, collars and/or currency exchange contracts.

[4] SDG&E intends to confine its financings in foreign capital markets and its financings involving foreign currencies to those periods in which it is reasonably confident that the financing, including any related currency transactions, will provide more favorable terms and conditions than are concurrently available to it in domestic capital markets or through financings not involving foreign currencies.

Interest Rate Swaps, Caps, Collars, and Currency Exchange Contracts

SDG&E seeks authority to enter into one or more interest rate swaps, caps, collars and / or currency exchange contracts from time to time as enhancements to the Debt Securities to improve the terms and conditions of the Debt Securities and / or to lower the overall cost of money for the benefit of ratepayers.

<u>Description of Interest Rate Swaps</u>

An interest rate swap is a contractual agreement between two parties to exchange a series of payments for a stated period. In a typical interest rate swap, one party issues fixed-rate debt while another issues floating rate debt, and the two swap interest payment obligations based on a notional principal amount (the principal itself is not exchanged). Swaps are generally used to reduce either fixed-rate or floating-rate costs, to guarantee liquidity, and to convert fixed rate borrowing to floating. SDG&E will enter into swap contracts only when it is expected that such arrangements will provide an overall cost of money lower than that available through the issuance of alternate Debt Securities.

By D.96-05-066 dated May 22, 1996 in A.96-03-053, this Commission allowed SDG&E a limit for interest rate swaps for debt financings in an amount not to exceed $250,000,000 of its long-term debt (approximately 20% of its then 1996 long-term debt of $1,235,523,810).

In this Application, SDG&E requests that the aggregate notional amount[5] (the principal itself is not exchanged) covered by interest rate swap contracts with respect to its debt financings be set at 30% of its total

[5] Equal to the debt's stated, par, or book value as opposed to its actual or market value.

debt outstanding. This is similar to that authorized by D.03-07-008 dated July 10, 2003 in Southern California Gas Company's (SoCalGas) A.03-03-042. SoCalGas stated in A.03-03-042 that the 30% ceiling on the use of swaps is a prudent limitation in that it prevents a utility from converting without further review by the Commission an unreasonable amount of its fixed-rate debt into floating-rate debt through swaps. While SoCalGas looks to studies that conclude 30% is a desirable floating-debt target, a simplified stress test confirms the overall prudence of the proposed ceiling: were the interest expense on the swapped portion of a fixed-rate debt portfolio to rise to twice the original fixed coupon, assuming the fixed coupon on the entire debt portfolio is constant, the overall debt cost would rise only 30%. [0.7(fixed rate) + 0.3(2)(fixed rate) = 1.3(fixed rate)].

<u>Description of Caps and Collars</u>

In order to reduce ratepayers' exposure to interest rate risk on variable-rate securities, SDG&E proposes to negotiate some type of maximum rate, usually called a cap. In that case, even if variable rates increase above the cap (or ceiling) rate, SDG&E would only pay the ceiling rate. In addition to the ceiling rate, sometimes a counterparty will desire a "floor" rate. In the event that the variable rate falls below the floor rate, SDG&E would pay the floor rate. The combination of a floor and a ceiling rate is called an interest-rate "collar" because the utility's interest expense is restricted to a band negotiated with the counterparty. Such protection for variable rate obligations is similar to a protection plan negotiated by consumers for variable-rate home mortgages.

Description of Currency Exchange Contracts

In the event SDG&E issues securities denominated in currencies other than United States Dollars, to reduce or eliminate the risk of currency fluctuations, SDG&E may enter into one or more currency exchange contracts or purchases and sales or other arrangements. Currency exchange contracts are agreements by which a counterparty would be obligated to pay SDG&E the foreign currency it needs to make interest, dividend or principal payments. In exchange, SDG&E would pay to a counterparty United States Dollars based on a pre-determined formula. Currency exchange contracts would be entered into with financial institutions or directly with principals in need of United States Dollars.

Preferred Stock

SDG&E proposes to sell shares of preferred stock or preference stock in a stated amount not to exceed the equivalent of U.S. $80,000,000. This will be offered to the public through either negotiated underwritings or otherwise, or by private placements with institutional or other investors and will be effected at any time or from time to time.

The precise amount and timing of each offering and sale of one or more series of preferred or preference stock, the method of sale, the price, the dividend rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures), dividend period, the liquidation preference and other rights, preferences, privileges and restrictions to be granted to or upon such shares (including redemption, repurchase and sinking fund provisions, if any) have not yet been determined and will be established prior to the offering and sale by SDG&E with due regard for its financial condition and requirements and then prevailing and anticipated market conditions.

The offering and sale will be effected through the use of purchase and underwriting agreements and other documents and instruments customary for issuance of capital stock by the method selected by SDG&E.

Use of Proceeds

SDG&E generally intends to apply the net proceeds from the proposed capital financings to, or to reimburse its treasury for monies expended or to be expended for: (i) the expansion and betterment of utility plant and (ii) the discharge of its indebtedness or preferred stock retired or to be retired at maturity and through sinking fund payments, redemption, prepayment (including premiums, if any, required in connection with redemption or prepayment), repurchase or otherwise. SDG&E estimates that approximately $184.6 million of the net proceeds will be applied towards (ii) above ($108.6 million to retire or refund debt securities and $76 million to retire or refund preferred stock).

We will authorize SDG&E's proposed Debt Securities in the aggregate principal amount of $660,000,000 and Preferred Stock in an aggregate amount of $80,000,000.

Pub. Util. Code § 817(d) allows a public utility to issue stock or evidences of indebtedness payable at a period of more than 12 months for the discharge or lawful refunding of its obligations.

Pub. Util. Code § 1904(b) states that no fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has been paid to the Commission.

Pursuant to Pub. Util. Code § 818, we will approve SDG&E's proposed debt and equity securities, the proceeds of which are to be used to retire existing long-term debt and equity securities, and for capital expenditures.

Pursuant to Pub. Util. Code § 851, we will allow SDG&E to encumber its property whenever such encumbrance serves to secure the debt authorized herein.

Interest rate swaps are used by a wide range of commercial banks, investment banks, non-financial operating companies, insurance companies, mortgage companies, investment vehicles and trusts, government agencies and sovereign states for any of the following reasons:

1. To obtain lower cost funding.
2. To hedge interest rate exposure.
3. To obtain higher yielding investment assets.
4. To implement overall asset or liability management strategies.
5. To take speculative positions in relation to future movements in interest rates.

The advantages of interest rate swaps include the following:

1. A floating-to-fixed swap increases the certainty of an issuer's future obligations.
2. Swapping from a fixed-to-floating rate may save the issuer money if interest rates decline.
3. Swapping allows issuers to revise their debt profile to take advantage of current or expected future market conditions.
4. Interest rate swaps are a financial tool that potentially can help issuers lower the amount of debt service.

For purposes of this Application, SDG&E will be subject to the following conditions in relation to interest rate swaps, caps, collars and currency exchange contracts:

1. SDG&E will separately report all interest income and expense arising from all swap and hedging transactions in its report to the Commission.

2. Swap and hedging transactions will not exceed at any time 30% of SDG&E's total long-term debt outstanding.

3. If SDG&E elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs associated with the termination will be subject to review in SDG&E's next cost of capital proceeding.

4. Swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which SDG&E receives in connection with long-term debt, must have counterparties with investment grade credit rating of two notches higher than SDG&E.

5. SDG&E will make available, within 30 days of request: (i) a report that would include a summary of the swap or hedge transaction, including but not limited to the term, costs of the transaction (fees or other expenses), dollar amount involved, and SDG&E's rationale for the

transaction and (ii) SDG&E's estimated costs for the "alternative" or unhedged transaction.

We place SDG&E on notice that the reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in cost of capital or general rate case proceedings.

Competitive Bidding Rule

Issues in Excess of $200 Million Principal Amount

Commission Resolution (Res.) No. F-616 dated October 1, 1986, states, "Requests for exemption from the [Competitive Bidding] Rule will only be entertained for debt issues in excess of $200 million, and will only be granted upon a compelling showing by a utility that because of the size of the issues, an exemption is warranted."

The requested exemption would provide SDG&E with the flexibility to meet its financing requirements on the most favorable terms available. The size of a debt offering may be determinative of whether competitive bidding or a negotiated offering will result in the lowest costs. In a competitively bid offering, the investment community is divided into competing bidding syndicates, with fewer participants and increased risk for each participant. Competitive bidding tends to fragment the capital commitment and placement capabilities of underwriters, who must work against each other and have less time to gauge and build market demand for an offering. In contrast, in a negotiated offering, a single underwriting syndicate can be formed that consists of a greater number of participants.

A negotiated offering for issues in excess of $200 million may result in a lower cost of funds and may provide greater flexibility to adjust the timing and terms of a proposed debt offering to meet changing market conditions.

Debt Issues for Which Competitive Bidding is Not Viable or Available

In Res. No. F-616, the Commission exempted all "debt issues for which competitive bidding is not viable or available" in response to the numerous changes which have occurred in the financial markets after the adoption of the Competitive Bidding Rule. While the resolution does not specify the type of financings that come within the exemption, the Commission's "Report on the California Public Utilities Commission's Competitive Bidding Rule for Issuance of Debt Securities" dated September 5, 1986 (Report) contains a discussion of reasons for the exemption and specifically refers to types of debt instruments that should be exempt. The Report states, in relevant part, "A number of…debt securities, either by their nature or by established business practices do not lend themselves to competitive bidding. Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets… Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that they types of debt instruments should be exempt from the Competitive Bidding Rule."

SDG&E requests authorization to effect its financings involving Debt Securities other than domestic public offerings of fixed interest rate debentures and First Mortgage Bonds, including without limitation, Medium-Term Notes, loans, variable rate debt securities, structured transactions (rate payment exchange or swap contracts entered into in conjunction with debt issues) and Debt Securities (or other forms of security) issued to guarantee Authority Bonds in conjunction with financing Eligible Facilities without competitive bids.

The utility intends to confine the foregoing financings to those that it is reasonably confident it can obtain at more favorable terms and conditions or lower costs than are available at the same time through domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds.

The terms and conditions of Debt Securities issued in each financing sold by means other than competitive bidding will be determined by negotiations between SDG&E and the underwriters selected for the proposed offering or the lenders or investors to whom the securities are issued.

SDG&E intends to effect its domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds $200 million or less by means of competitive bidding.

<u>Others</u>

Finally, to provide added flexibility to take advantage of market opportunities, SDG&E requests permission to use the following procedures for those situations where the Competitive Bidding Rule remains applicable:

1. To telephonically invite the submission of bids and to receive bids by telephone from two or more underwriters or groups thereof, in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids;

2. To telephonically accelerate, postpone or cancel the scheduled date and time for the receipt of bids and / or vary the terms and provisions of the Debt Securities submitted for bid;

3. To reject all bids and to telephonically request resubmission of bids for Debt Securities with the same or other terms and provisions; and

4. To eliminate the one-day notification requirement to solicit bids.

SDG&E believes that compelling circumstances exist for exemption from the Competitive Bidding Rule for the previously described debt issues. Those circumstances have been previously addressed in SDG&E's D.01-02-011 and partly in D.96-05-066 and D.93-09-069.

We grant SDG&E's request for the previously described exemptions from the Competitive Bidding Rule. We do so based on SDG&E's representation that granting the exemptions will enable SDG&E to obtain debt in a manner advantageous to SDG&E and its ratepayers. This decision makes no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by SDG&E pursuant to the exemptions granted herein. All underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds (other than tax-exempt securities) in the principal amount of $200 million or less that will be effected in the domestic capital markets must comply with Res. No. F-616.

Financial Information

For the fiscal year ended December 31, 2002, SDG&E reported total operating revenues of $1,696,000,000 and net income of $209,000,000, as shown in its Statement of Consolidated Income, attached as Schedule A to the Application. SDG&E's Consolidated Balance Sheet at December 31, 2002, shown also as part of Schedule A, is summarized as follows:

Assets	Amount
Net Utility Plant	$ 2,633,000,000
Nuclear Decommissioning Trusts	494,000,000
Current Assets	823,000,000
Other Assets	1,173,000,000
Total	$ 5,123,000,000
Capitalization and Liabilities	
Common Equity	$ 1,144,000,000
Preferred Stock	79,000,000
Total Shareholders' Equity	$ 1,223,000,000
Preferred Stock Subject to Mandatory Redemption	25,000,000
Long-term Debt	1,153,000,000
Total Capitalization	$ 2,401,000,000
Current Liabilities	957,000,000
Deferred Credits & Other Liabilities	1,765,000,000
Total	$ 5,123,000,000

Construction Budget

SDG&E's construction budgets for 2002 through 2005, as shown in Schedule C to the Application, are as follows:

	(Thousands of Dollars)			
	Recorded		Projected	
Components	2002	2003	2004	2005
Electric Distribution	232,000	224,000	252,000	280,000
Electric Transmission	33,000	52,000	35,000	24,000
Gas Distribution	28,000	26,000	30,000	34,000
Gas Transmission	3,000	7,000	4,000	5,000
SONGS	6,000	9,000	22,000	20,000
General Plant and Other	81,000	50,000	56,000	71,000
Total	383,000	368,000	399,000	434,000

We will not make a finding in this decision on the reasonableness of SDG&E's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases.

<u>Projected Cash Requirements</u>

SDG&E's estimate of cash requirements for 2003 through 2005 is summarized as follows:

	(Thousand of Dollars)			
Components	2003	2004	2005	Total
Construction expenditures	(368,000)	(399,000)	(434,000)	(1,201,000)
Retirement and redemption of long-term debt (1)	(354,855)			(354,855)
Retirement and redemption of preferred stock (2)	(76,000)			(76,000)
Beginning of year cash (short-term debt) balance	158,600	90,803	134,327	383,730
Subtotal	(640,255)	(308,197)	(299,673)	(1,248,125)
Less: Estimated cash available from internal sources	299,600	200,837	307,902	808,339
External funding required	(340,655)	(107,360)	8,229	(439,786)
External funding provided from sale of debt securities	340,655	107,360	-	
% of Available Cash to Needed Funds	47%	65%	103%	65%

(1) Certain debt series are callable during the projection period. Based on the market interest rates at the time of the filing of the Application, the following debt series appear to be economic to refund:

Series NN-1 due 9/1/2018, callable 9/1/2002	43,615
Series NN-2 due 9/1/2018, callable 9/1/2002	40,000
Series NN-3 due 9/1/2019, callable 9/1/2002	35,000
Series 00-1 due 12/1/2027, callable 12/1/2002	75,000
Series PP due 6/1/2018, callable 6/1/2003	68,295
Series SS due 9/1/2018, callable 9/1/2003	92,945

(2) All of SDG&E's preferred series are callable during the projected period. Based on market conditions at the time of the filing of the Application, the following series appear to be economic to refund:

SDG&E $1.7625 series	25,000
SDG&E $1.70 series	35,000
SDG&E $1.82 series	16,000

Capital Ratios

SDG&E's capital ratios as of December 31, 2002, are presented below as recorded and adjusted to give pro forma effect to the transactions listed below:

	(Thousands of Dollars)				
	Recorded		Adjustments	Proforma	
Long-term debt	789,192	38.7%	311,820	1,101,012	45.2%
Short-term debt	-	0.0%	-	-	0.0%
Total Debt	789,192			1,101,012	
Preferred Stock	103,475	5.1%	4,000	107,475	4.4%
Common Equity	1,144,189	56.2%	80,721	1,224,910	50.3%
Total Capitalization	2,036,856	100.0%	396,541	2,433,397	100.0%

Debt Securities

1. The issue of new money debt in the amount of $138,480,000 originally authorized by D.93-09-069.
2. The initial issue of $275,240,000 under the $660,000,000 authorization requested in the Application[6].
3. The rollover of $246,280,000 debt under the authority in D.96-05-066.
4. The projected retirement and redemption of $108,575,000 long-term debt.
5. The decrease of $6,675,000 in miscellaneous debt-related accounts[7].

[6] SDG&E projects that additional debt will be required in years following the pro-forma horizon to fund capital expenditures related to SDG&E's long-term resource plan submitted in its Requests For Proposal or RFP motion in R.01-10-024. While SDG&E will maintain its authorized capital structure by funding a large portion of these expenditures with internally generated cash flow, an estimated external funding of $385 million is earmarked to support capital needs and to provide financial flexibility.

[7] This represents the write-off of six financed bond series' issue discounts/premiums and issue expenses, offset by premiums paid to call the refinanced series and new-issue expenses related to the refunding series.

Equity Securities

1. The issue of Preferred Stock in the amount of $80,000,000 requested in the Application.
2. The projected retirement and redemption of $76,000,000 of SCE's preferred series.
3. The projected retained earnings of $80,721,000.

SDG&E 's authorized capital structure as shown in D.02-11-027 dated November 7, 2002, consists of 45.25% long-term debt, 5.75% preferred equity, and 49% common equity.

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

In Resolution (Res.) ALJ 176-3120 dated October 2, 2003, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3120.

Comments on Draft Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Assignment of Proceeding

Izetta C.R. Jackson is the assigned Examiner in this proceeding.

Findings of Fact

1. SDG&E, a California corporation, is a public utility subject to the jurisdiction of this Commission.

2. SDG&E needs external funds for the purposes set forth in the Application.

3. The proposed issue of Debt Securities and Preferred Stock are for proper purposes and not adverse to the public interest.

4. Authorizing SDG&E to determine the precise amount and timing of each debt issue, the market in and method by which each debt issue is effected, price, interest rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures), and other material terms and provisions of each debt issue and of any Debt Securities related thereto in the manner and subject to the limitations set forth in the Application would not be adverse to the public interest.

5. Authorizing SDG&E to encumber utility assets in the event that such encumbrance will be required to secure the Debt Securities is for proper purposes and is not adverse to the public interest.

6. The Commission does not by this decision determine that the SDG&E's construction budget, cash requirements forecast, and capital ratios presented herein are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or cost of capital proceedings.

7. The use of credit enhancements, interest rate caps, collars and swaps in appropriate circumstances is not adverse to the public interest. This may provide the utility the means to better manage its cost of capital.

8. Limiting SDG&E's swaps in connection with this decision to those involving counterparties with investment grade credit ratings of two notches higher than SDG&E will help keep counterparty risk within acceptable bounds.

9. The reasonableness of any resulting interest rate and cost of money arising from debt capital is normally subject to review in cost of capital or general rate case proceedings.

10. Pub. Util. Code 1904(b) states that no fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has already been paid to the Commission.

11. SDG&E requests several exemptions from the Competitive Bidding Rule. The exemptions requested are identified in the body of this decision. The Commission granted similar exemptions in D.01-02-011, D.96-05-066, and D.93-09-069.

12. Granting the exemptions requested from the Competitive Bidding Rule will help SDG&E issue debt on terms that are favorable to SDG&E and its ratepayers.

13. Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 23, 2003. There is no known opposition to this Application, and the authority requested should be granted.

Conclusions of Law

1. A public hearing is not necessary.

2. The Application should be granted to the extent set forth in the order that follows.

3. This authorization is not a finding of the value of SDG&E's stock or property, nor does it indicate approval of matters subject to review in ratemaking proceedings.

4. Res. F-616 allows exemption from the Competitive Bidding Rule for: (1) debt issues in excess of $200 million, and (2) variable rate debt, structured transactions, bank borrowings, and other securities privately placed with specific lenders.

5. Certain bidding procedures and deviations from the Competitive Bidding Rule are permitted in Res. F-616.

6. SDG&E's request for the exemptions from the Competitive Bidding Rule described in the body of this decision is reasonable and should be granted.

7. SDG&E should pay the fee determined in accordance with Pub. Util. Code § 1904(b).

8. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, San Diego Gas & Electric Company (SDG&E), upon terms and conditions substantially consistent with those set forth or contemplated in Application 03-09-035 (Application), is authorized to:

   a. Issue, sell, and deliver one or more series of First Mortgage Bonds, debentures, promissory notes or other evidences of its indebtedness (including, without limitation, overseas indebtedness and foreign securities), enter into loans (collectively Debt Securities) and / or to guarantee unconditionally or otherwise secure the obligations of one or more political subdivisions in respect of their issuance of debt for facilities qualifying for tax-exempt financing under federal law in an aggregate principal amount not to exceed $660,000,000, for the purposes identified in the body of this decision;

   b. Issue and sell not more than U.S. $80,000,000 stated value of preferred or preference stock and apply the net proceeds thereof for the purposes identified in the body of this decision;

   c. Arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities, and to modify such credit facilities in the manner set forth in the Application without further authorization from the Commission;

   d. Execute and deliver an indenture or supplemental indenture in connection with any issue of Debt Securities, and to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities;

e. Pledge or otherwise dispose of or encumber its accounts receivable in connection with the issuance and sale of Debt Securities;

f. Issue, sell, and Deliver Debt Securities by public offering or private placement;

2. SDG&E may enter into one or more contracts for the purpose of managing interest rate risk. Such contracts could take a number of forms including interest rate cap agreements, interest rate floor agreements, interest rate collar agreements and interest rate swap agreements. SDG&E may also enter into contracts to reduce the risk of increased interest rates associated with planned financings. Such contracts could include hedging future fixed rate debt issuances such as Treasury locks, caps and collar agreements. This authority shall not be considered as separate debt for purposes of calculating the remaining financing authorization granted by this order.

3. SDG&E is limited to entering into swap and hedging transactions aggregating no more than 30% of its total long-term debt outstanding.

4. Swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which SDG&E receives in connection with long-term debt, shall have counterparties with investment grade credit ratings of two notches higher than SDG&E.

5. SDG&E shall separately report all interest income and expense arising from all swap and hedging transactions in its report to the Commission.

6. If SDG&E elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs associated with the termination shall be subject to review in a ratemaking proceeding.

7. For every swap or hedge transaction, SDG&E shall make available, within 30 days of request: (i) a report that would include a summary of the swap or hedge transaction, including but not limited to the term, costs of the transaction (fees or other expenses), dollar amount involved, and SDG&E's rationale for the transaction and (ii) SDG&E's estimated costs for the "alternative" or unhedged transaction.

8. SDG&E shall enter into interest rate swap and hedging contracts only when it is expected that such arrangements will provide an overall cost of money lower than that available through the issuance of alternate Debt Securities.

9. SDG&E's debt issues with principal amounts greater than $200 million, variable rate debt securities, negotiated financing transactions, debt enhancements such as interest rate swaps, caps, collars, and / or currency exchange contracts are exempt from the requirements of the Commission's Competitive Bidding Rule.

10. Consistent with the modifications to the Competitive Bidding Rule set forth in Resolution No. F-616, SDG&E is authorized to:

a. Telephonically invite the submission of bids and to receive bids by telephone from two or more underwriters or groups thereof, in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids;

b. Telephonically accelerate, postpone or cancel the scheduled date and time for the receipt of bids and / or vary the terms and provisions of the Debt Securities submitted for bid;

c. Reject all bids and to telephonically request resubmission of bids for Debt Securities with the same or other terms and provisions; and

d. Eliminate the one-day notification requirement to solicit bids.

11. On or before the 25th day of the month following each quarter, SDG&E shall file the reports required by General Order No. Series 24-B.

12. The authority granted by this order shall become effective when SDG&E pays $283,713[8] as required by Pub. Util. Code § 1904(b).

13. The Application is granted as set forth above.

14. Application 03-09-035 is closed.

This order is effective today.

Dated ________________, at San Francisco, California.

[8] The amount subject to the fee is $555,425,000 ($80,000,000 Preferred Stock + $660,000,000 Debt Securities less $184,575,000 proceeds to be used to refinance securities for which fees have previously been paid). The fee is determined as follows: ($2 x (1,000,000/1,000)) + ($1 x 9,000,000/1,000)) + ($0.50 x (545,425,000/1,000)) = $283,713.